

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 /110 W

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R 271603Z MAR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9017

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 05087

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 26 -
MARCH 28 IS A GERMAN HOLIDAY)

1. REDUCTION IN INTEREST RATES FOR EXPORT CREDITS:
FOLLOWING THE MARCH 6 HALF-PERCENT REDUCTION IN THE
BUNDESBANK'S DISCOUNT RATE, THE AUSFUHRKREDITGE-
SELLSCHAFT (AKA; EXPORT CREDIT COMPANY) REDUCED THE
INTEREST RATE FOR EXPORT CREDITS OF ITS A FUND FROM
9 3/4 PERCENT TO 9 1/4 PERCENT. CREDITS FROM A FUND
ARE PROVIDED BY THE AKA MEMBER BANKS TO FINANCE GERMAN
SUPPLIER CREDITS. AT THE SAME TIME THE INTEREST RATE
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OF THE C FUND WAS REDUCED BY ONE-HALF PERCENT TO

9 1/4 PERCENT. C FUND CREDITS ARE PROVIDED BY THE AKA MEMBER BANKS FOR THE GRANTING OF BUYER CREDITS. (THE INTEREST RATE FOR EXPORT CREDITS FROM THE B FUND PROVIDED BY THE BUNDESBANK IN THE FORM OF REDISCOUNT LINE WAS REDUCED FROM 7 TO 6 1/2 PERCENT AUTOMATICALLY WITH THE DISCOUNT RATE REDUCTION.)

2. MONEY SUPPLY: IN FEBRUARY THE RATE OF MONETARY EXPANSION REMAINED LOW. THE NARROWLY DEFINED MONEY SUPPLY (M1) INCREASED BY DM 0.3 BILLION WHILE THE WIDELY DEFINED MONEY SUPPLY (M2) DECLINED BY DM 0.5 BILLION. DURING THE LAST THREE MONTHS, ON A SEASONALLY ADJUSTED BASIS AND AT ANNUAL RATES, M1 INCREASED BY 7.1 PERCENT. AT THE END OF FEBRUARY 1975 M1 WAS 11 PERCENT ABOVE LAST YEAR'S VOLUME AND M2 ABOUT 2 1/2 PERCENT HIGHER. THE LOW MONETARY EXPANSION WAS LARGELY DUE TO A LOW CREDIT DEMAND FROM THE PRIVATE SECTOR. INFLOWS FROM ABROAD, ON THE OTHER HAND, WERE HIGH. THE BUNDESBANK ATTRIBUTES THE LATTER DEVELOPMENT TO THREE FACTORS: MORE FAVORABLE INTEREST CONDITIONS FOR GERMAN BORROWERS ON EURO-MARKETS THAN AT HOME, A SHIFT IN TERMS OF PAYMENT DUE TO THE FAVORABLE PERFORMANCE OF THE DEUTSCHEMARK ON FOREIGN EXCHANGE MARKETS, AND FURTHER SURPLUSES IN GERMANY'S CURRENT ACCOUNT BALANCE. MONEY IN SAVINGS ACCOUNTS REACHED A NEW MONTHLY RECORD, EXCEPT FOR THE SEASONALLY HIGH MONTH OF DECEMBER. THE BUNDESBANK ATTRIBUTES THIS IN PART TO A SHIFT FROM TIME DEPOSITS TO SAVINGS DEPOSITS, DUE CHIEFLY TO THE SUBSTANTIAL DECLINE OF INTEREST RATES FOR TIME DEPOSITS. DURING FEBRUARY THE INDIVIDUAL DETERMINANTS AND COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS:

	1975	1974	
	FEB	JAN	FEB
BANK LENDING TO DOMESTIC			
NON-BANKS	1.0	-3.4	3.9
NET EXTERNAL ASSETS OF			
BANKS (INCLUDING BUNDES-			
BANK)	5.8	2.5	0.7

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SAVINGS DEPOSITS AND			
SAVINGS BONDS	5.0	3.9	1.4
TIME DEPOSITS (1) AND			
OUTSTANDING BANK			
BONDS (2)	3.0	3.1	1.4
OFFICIAL ASSETS HELD AT			
CENTRAL BANK	0.2	1.6	0.6
OTHERS	0.9	-4.8	1.1

MONEY SUPPLY (M2) -0.5 -14.3 2.3
OF WHICH:CURRENCY IN
CIRCULATION AND SIGHT
DEPOSITS (M1) 0.3 -13.8 1.5
TIME DEPOSITS WITH
MATURITIES UP TO
4 YEARS -0.8 -0.5 0.8

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TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 /110 W
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R 271603Z MAR 75
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9018
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
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AMCONSUL FRANKFURT

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- (1) WITH MATURITIES OF 4 YEARS AND MORE.
- (2) EXCLUDING BONDS HELD BY BANKS.

3. FOREIGN EXCHANGE MARKET: THE DEATH OF KING FAISAL HAD NO SIGNIFICANT EFFECT ON GERMAN FOREIGN EXCHANGE MARKETS. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT.P.A.)
SPOT DOLLARS ONE-MONTH THREE-MONTH

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MARCH 21	DM 2.3193	-1.6	-1.3
24	2.3332	-1.5	-1.6
25	2.3360	-1.5	-1.8
26	2.3360	-1.8	-1.9

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. ALL FLOAT CURRENCIES WERE ABOVE THEIR DEUTSCHEMARK CENTRAL RATES WITH THE BELGIAN FRANC APPROACHING ITS UPPER DEUTSCHEMARK INTERVENTION POINT.

4. MONEY MARKET: AFTER THE MAJOR MID-MARCH TAX DATE THE GERMAN CALL MONEY MARKET EASED. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

MARCH 21	3.8-4.2	5.0-5.5	5.2-5.7
24	3.0-3.5	4.7-5.0	5.1-5.4
25	3.5-4.0	4.7-5.3	5.0-5.4
26	3.0-3.5	4.7-5.3	5.0-5.4

5. MONETARY RESERVES: IN THE SECOND WEEK OF MARCH (MARCH 8-15) BUNDESBANK MONETARY RESERVES DECLINED BY DM 0.3 BILLION TO DM 85.9 BILLION LARGELY IN CONNECTION WITH GOVERNMENT PAYMENTS TO THE EEC. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 63 MILLION WHILE GROSS LIABILITIES INCREASED BY ABOUT DM 230 MILLION.

5. BANK LIQUIDITY: DURING THE SECOND WEEK OF MARCH BANK LIQUIDITY DECLINED BY DM 1.8 BILLION. THE PRINCIPAL FACTORS REDUCING LIQUIDITY WERE A DM 1.2 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK DUE TO THE MID-MARCH TAX DATE AND A DM 1.2 BILLION INCREASE IN THE BANKS HOLDINGS OF RESERVES AT THE BUNDESBANK. THE ONLY MAJOR FACTOR INCREASING LIQUIDITY WAS THE USUAL DECLINE OF CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 0.4 BILLION). OTHER

FACTORS, NET, INCREASED LIQUIDITY BY DM 0.2 BILLION.
THE BANKS FINANCED THEIR LIQUIDITY LOSS BY RETURNING
MONEY MARKET PAPER TO THE BUNDESBANK (DM 1.4 BILLION)
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AND INCREASING REDISCOUNT BORROWINGS (DM 0.4 BILLION).

6. BOND MARKET: DURING THE REPORTING WEEK THE FAZ
AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC
BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

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R 271603Z MAR 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9019

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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MARCH 21	9.16	9.22	8.89
24	9.16	9.21	8.85
25	9.16	9.21	8.84
26	9.14	9.21	8.84

ON APRIL 1 A DM 660 MILLION LOAN OF THE FEDERAL GOVERNMENT WILL BE OFFERED CARRYING THE SAME CONDITIONS AS THE RECENTLY OFFERED LOANS BY THE STATES OF BAVARIA AND BADEN-WUERTTEMBERG (COUPON 8.5 PERCENT, ISSUE PRICE 98 1/2, MATURITY 8 YEARS NON-CALLABLE, YIELD TO MATURITY 8.77 PERCENT). DM 600 MILLION OF THE LOAN WILL BE PUBLICLY OFFERED, THE REMAINING DM 60 MILLION UNCLASSIFIED

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WILL BE RETAINED BY THE BUNDESBANK FOR OPEN MARKET PURPOSES. THE COUNTY COUNCIL OF STOCKHOLM PLANS TO BORROW DM 100 MILLION ON THE GERMAN MARKET. THE LOAN IS EXPECTED TO CARRY A COUPON OF 8 3/4 PERCENT AND A MATURITY OF 12 YEARS WITH REPAYMENT BEGINNING AFTER 3 YEARS.

7. PRIVATE PLACEMENTS OF FOREIGN BORROWERS
: RECENTLY FOREIGN DEUTSCHEMARK BORROWINGS ON THE GERMAN MARKET HAVE INCREASINGLY BEEN MADE IN THE FORM OF PRIVATE PLACEMENTS. ACCORDING TO THE COMMERZBANK, IN THE SECOND HALF OF FEBRUARY AND THE FIRST HALF OF MARCH SUCH BORROWINGS AMOUNTED TO DM 255 MILLION AS COMPARED WITH FOREIGN BORROWINGS THROUGH PUBLIC OFFERINGS OF DM 430 MILLION. PRIVATE PLACEMENTS OF FOREIGN BORROWERS INCLUDED THE FOLLOWING: GENOSSENSCHAFTLICHE ZENTRALBANK, VIENNA (DM 50 MILLION, 9 1/4 PERCENT); AUTOROUTES PARIS-LION (DM 30 MILLION, 9 PERCENT); TAISEI CONSTRUCTION, JAPAN (DM 25 MILLION, 9 1/2 PERCENT); TAUERNAUTOBAHN, AUSTRIA (DM 50 MILLION, 9 PERCENT); PHILIPS GLOEILAMPEN, THE NETHERLANDS (DM 50 MILLION; 9 1/2 PERCENT); TRANS EUROPEAN NATURAL GAS PIPELINE, BERMUDA (DM 50 MILLION, 9 1/2 PERCENT).
HILLENBRAND

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